

Health Care and the US Economy in the 21st Century

Topic: Policy Analysis with Interindustry Models

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Abstract

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Long-term projections of the U.S. economy and the scope of health care in the economy to 2091 are useful for long-term budgeting of the Medicare and Social Security Trust Funds, as well as for health care policy analysis. In this paper we describe the use of the Inforum LIFT long-term industry macro model to portray a consistent base case projection of health care and the economy to 2091, and then sketch out the use of alternative scenarios that serve both to bracket and better understand the assumptions underlying those scenarios and their implications.

In this paper we describe the development of a baseline for the U.S. economy and health care spending to 2091. We delve into some of the special considerations involved in making a scenario for a period of this length, especially the contributions of demographic changes, labor force and productivity.

In addition to this scenario, we develop 4 alternative scenarios to explore. The 5 scenarios are:

1. Long-Term Baseline. The baselines are congruent with the Trustees projection of economic growth, population and demographic composition, productivity growth, and national health expenditures, under a "base" case and an "illustrative alternative" that assumes more rapid growth in Medicare prices paid to healthcare providers and faster growth in health spending overall.
2. Higher Health Spending. This scenario is similar to the Baseline, except that it follows the higher-growth spending pattern for Medicare and NHE from the "Illustrative Alternative" from the Medicare Trustees.
3. New Normal. Continued Slow Growth, Low Inflation, Slow Productivity Growth
4. Higher Healthcare Productivity. Health care productivity growth rises to match that of the overall economy.
5. Insufficient Federal Revenues. Federal tax rates do not rise to match the growth of health program spending shown in the Baseline.

The first section of this paper reviews some key facts about the recent U.S. economic history and the behavior of health care spending. Section 2 delves into the logic and rationale of the 75 year projections, and the related long-term projections made in the Trust fund reports and by CBO. Section 3 provides a brief description of the LIFT model. Section 4 describes the development of the Baseline, including a section on the steps involved and the assumptions and considerations that need to be made. Summary and highlights of the baseline are also in this section. Section 5 describes alternative scenarios that shed light on changing several important assumptions in the baseline. Section 6 concludes, and projects some avenues for further development of this analysis.